

# TAX INCENTIVES FOR HISTORIC INCOME-PRODUCING PROPERTIES

---

The US Federal Government and State of Montana offer income tax credits totaling 25%\* of rehabilitation investments in income-producing properties listed in the National Register of Historic Places. Since 1996 over \$20 million have been invested in Montana's historic income-producing buildings through the tax credit program resulting in over \$500,000 in tax credits. While the property owner realizes an immediate tax benefit in exchange for their historically sensitive building improvements, Montanans benefit from private investment in the state's heritage, job creation, increased property values, and an improved tax base.

\* The US Federal Government income tax credit is equal to 20% of the owners' rehab investment; the State of Montana income tax credit is equal to 5% of the investment. The State credit piggybacks the federal credit; those qualifying for the State credit must first meet the requirements of the Federal program.

---

## THE STATE HISTORIC PRESERVATION OFFICE (SHPO) THE NATIONAL PARK SERVICE (NPS), AND THE IRS: THEIR ROLES

The SHPO administers the Tax Credit program and National Register program at the state level and is the liaison between applicants and the NPS. SHPO provides preliminary reviews and general guidance for the length of the project. The NPS reviews all applications and determines if they meet the program requirements. NPS provides approval or disapprovals of project plans and certification of completed projects. The IRS offers guidance on the tax component of the program.

## PROJECT REQUIREMENTS

### Properties must be Income Producing

The Rehabilitation Tax Credit program is intended for buildings functioning as a business venture. "Walk-up" businesses, offices, storage, rental housing, agriculture related, are some examples. Residential type properties converted to an income producing use can qualify for tax credits, but private residential property does not.

### Secretary of the Interior's Standards for Historic Rehabilitation

The Rehabilitation Standards provide a decision making framework for applicants as they plan and implement building treatments. In order to qualify for tax credits, all work must adhere to the Secretary of the Interior's Standards for Historic Rehabilitation. Rehabilitation emphasizes retaining the historic character of a building while making it function to meet modern needs. The emphasis of the Rehab Standards is to retain as much historic building fabric and spatial character as possible, repair damaged historic features, remove non-historic features, and replace missing or severely damaged historic features in-kind. The Rehab Standards are available on line at: <http://www.cr.nps.gov/hps/tps/standards/rehabilitation.htm>

### Substantial Rehab Test

In order to pass the *Substantial Rehab Test* an applicant must spend the greater of \$5,000 or the building's *Adjusted Basis* on the rehabilitation. The Adjusted Basis is the cost of the building (what the current owner paid for it), minus the land, minus depreciation, minus capital improvements. This dollar amount must be invested in the rehabilitation within a 24-month measuring period for standard projects or a 60-month measuring period for phased projects. For more information on this formula visit: <http://www.irs.gov/pub/irs-utl/faqrehab.pdf>

### National Register Listing

Buildings that qualify for tax credits must be either listed in the National Register or found eligible for listing and **listed within 30 months of the applicant claiming the tax credit**. Buildings can be eligible for listing because of their association with significant people, events; their architecture or craftsmanship. The SHPO and NPS determine if properties are eligible for the National Register based on information provided by the building owner in their tax credit application. Properties can be listed individually or as *contributing* properties within a National Register district. Buildings determined not eligible in their pre-rehab state can be made eligible and listed after the rehab project. The SHPO reviews National Register nominations and offers guidance to applicants during the nomination process. Nominations can be done concurrently with building rehab planning

and implementation. Costs associated with a nomination are qualified expenses in the tax credit program. Information on the National Register is available at: <http://www.nationalregisterofhistoricplaces.com>

## **APPLICATION PROCESS**

The Federal Tax Credit program requires applicants to complete a **three-part application** and submit two copies of each part to the SHPO. The SHPO reviews and comments on the application and forwards one copy to the NPS for their comment. SHPO has a maximum of 30 days for review before commenting and forwarding applications to NPS; NPS also has a maximum review period of 30 days. There is no application process for the state tax credit. Those who qualify for the federal tax credits and wish to apply for the state credit need only provide the state with relevant information on their state income tax form. Electronic applications are available at: <http://www.cr.nps.gov/hps/tps/tax/hpcappl.htm>

### **Part 1 – Evaluation of Significance**

Part 1 must be submitted prior to the completion of rehab work and prior to the date the building is placed in service. In Part 1 applicants state that their building is listed in the National Register or make the case for their building's eligibility for National Register listing. Part 1 is often submitted simultaneously with Part 2 of the application.

### **Part 2 – Description of Rehabilitation Work**

We recommend that applicants submit Part 2 during the project planning process, prior to bid and the start of work. In Part 2 applicants describe the existing condition of their building and how their proposed rehabilitation will improve the condition of the building's historic architectural features, spaces, and finishes within the Secretary of the Interior's Standards for Historic Rehabilitation. All descriptions of existing conditions must be supported by photo documentation that provides reviewers with the physical context of features and close-up photos showing the condition of those features. Floor plans and elevation drawings are helpful, but only necessary if the applicant elects to do a phased project.

The SHPO recommends that applicants submit a single copy of their Part 2 for preliminary SHPO review. A preliminary review can help applicants avoid the need to amend their Part 2, and can streamline the NPS review. A sample Part 2 from a successful application is available upon request from the SHPO.

### **Amendment Sheets**

Rehabilitation projects can bring about unanticipated building related situations. Amendment sheets are for describing changes to plans laid out in Part 2. Two copies of amendment sheets and related photos and drawings must be submitted to the SHPO for comment; SHPO will forward amendment sheets to NPS. Amendment sheets are also used by applicants in response to changes in work items recommended by NPS.

### **Part 3 – Request for Certification of Completed Work**

Applicants photo-document completed work and state the final cost of rehabilitation. Photos for Part 3 must correspond to those submitted in Part 2. All owners of the property must be listed in Part 3 in order for them to claim the tax credit.

## **SHPO CONTACTS**

### **Tax Credit Program**

Pete Brown  
Historic Architecture Specialist  
406-444-7718  
[pebrown@mt.gov](mailto:pebrown@mt.gov)

### **National Register Program**

Kate Hampton  
National Register Coordinator  
406-444-3647  
[kahampton@mt.gov](mailto:kahampton@mt.gov)